



# A RISK OF DEMONITISATION AND ITS IMPACT ON VARIOUS SECTORS

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## ABSTRACT

On 08/11/2016, the Indian government has made a prominent decision regarding the note ban. The central government was a prudent, thought-provoking and well-organized step, and would eliminate all the existing black money. In the important decision announced by the Government of India, the notes of 500 rupees and one thousand rupees will not be valid tenders from midnight, 8 November 2016. The RBI will issue a new sample of two thousand rupees and a counterfeit 500 rupees will be circulated from November 10, 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupees are legal tender, and this decision will not have any effect. The Prime Minister has tried to bring this to the notice of corruption, black money and fake notes. This decision is expected to liberate the formal financial system and black money will be broken.

In this, we highlight the various economic changes and the potential consequences of this decision on various institutions. This study will help us to understand the positive and negative consequences of the note ban decision taken by the Indian government. This study is based solely on secondary data, which is collected from newspapers, magazines, internet websites, some related books related to the subject etc.

**KEYWORDS:** Anonymous, Cashless Behavior, Credit, Tax Theft, demonetization.

## I. Introduction

The Government has brought about a major change in the economic environment by defacing high-value currency notes of 500 and 1000 rupees. It has been ceased to be a legal tender since midnight of November 8, 2016. People have been forced to exchange notes taken by them until December 30, 2016. Government instructed Removal of the existing notes in exchange with new notes. In the short term, cash will be reduced from the market, because the person can withdraw less money as limit was placed on withdrawal of money. In the coming month, this drain can be somewhat relaxed. The reasons given for notabandi: One, controlling counterfeit notes, which can help terrorism, in other words will take care of national security, and secondly, reducing or eliminating "black economy". There are two possible ways in which the pre-demonetization currency supply will stand modified in the new regime that one is the some economy agent who cannot understand and explain why they are holding cash and therefore cannot credit it in the banking system. This currency will be energized because they will not be changed in any way, the second thing the government may choose to change only one part of the currency i.e. in the form cash. In other words, the rest will be available only through electronic money. It is a mechanism that can be used to transfer mounds to cashless media. The experimental limit of these two components will be scored in the next six months. Both of these will have different effects on the economy in a short period of time and in the medium term, as they will be searched below. To understand the consequences of these dimensions, it is important to understand first what is cash in the economy? There are a large number of transactional transactions in the economy: accounted, unaccounted, informal, and illegal transactions. The first two categories are related to whether they are registered for tax purposes of transactions and related income. In the third category there are large number of agents, which earn less than the free limit and therefore does not come under tax liability, which cash they use for various departments of the economy. Ultimately, cash will be demanded for unlawful reasons for bribery in elections, spending over approved limits, criminal and corruption behavior. If at any time, taking a snapshot of the place of the cash, it is difficult to say or estimate how much cash is in this category.

## II. Definition of the second 'demonetization'

Demonetization is the act of stripping a currency unit of its status as legal tender. It is necessary whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

## III. Demonetization Impacts In India

- A) Black money stored in the form of 500 and 1000 rupees. Black Money will be removed from our system. According to the ICICI Securities Primary Dealership, the government will deposit black money worth Rs 4.6 lakh crore on a scheme to scrap 500 rupees and 1,000 rupees.
- B) Terror funding Fake Indian currency Notes (FICN) network is suffering because of removing the notes of 500 and 1000 rupees. It will have a permanent impact on the syndicate of the FICN, the terrorist network will be affected in Jammu and Kashmir, the northeastern states and the turbulent hit states.

- C) Significant improvements may appear in real estate. There is a possibility of a far-reaching effect on the real estate. In the real estate sector, resale transactions generally need to be capital growth because it reduces the cost of capital gain tax. Black money was responsible for the admiration of property in the Metro; the real estate price can now see a sharp drop.
- D) Political parties in the political circles have been amazed after elections in five states of 2017. Especially in large states like Punjab and Uttar Pradesh, cash donations are a major part of "election management". In a stroke, large parties may feel like hammering down themselves because cash is not frequent money. Political parties need to implement the entire strategy in light of the issue of prevention.
- E) Moving towards a digital payment Demonization will lead people to carry out visual tabs like paytm, ola money etc. This behavior change can be a game changer for India.
- F) Temporary chaos and confusion public will face problems for a few days due to scarcity of notes.

There are many debates on the issue of the current government's declaration and its impact on the real estate sector after the ban on 500 and 1000 rupees notes. Nearly 12% of the Nifty Realty Index fell as a reflection, especially on emotions. Let's see how...

- A) **Commercial Real Estate:** There will be minimal impact on the office / industrial leasing and transaction, as the cash component does not play an important role in such transactions.
- B) **Residential Real Estate:** The primary sales department is largely influenced by home finance companies and the deal is achieved in a transparent way. That is why this division has limited impact on large cities, although some tier 2 and tier 3 cities will have a business tactic where cash component remains a factor in primary sales. However, secondary or resale market will definitely be affected as cash segment is involved in this segment.
- C) **Real Estate Investment Market:** Projects will be able to grow because there is no available capital for informal sources. These actually give institutional capital more opportunities. FDI, Private Equity and Debt Player will suddenly become market transparent and attractive. Apart from this, banks can start raising funds for land transactions and hence the cost of land is declining.
- D) **Retail real estate:** Retailers are seen to have little effect on their business due to reduced cash transactions. There is a possibility of a luxury segment hit due to the increased historical increase of cash acceptance. However, credit / debit cards and e-wallet must be used in rescue. Overall, the story of the home cost remains constant; there is no threat to the full power and growth of the Indian retail industry.

**E) Land sale:** Land transactions are happening in joint ventures, joint ventures or corporate investment areas, so the reprint process will not be affected much. Most of these are institutional, not low or with cash capital. However, the direct land dealer will have to be homeless - especially when the farm-land operations are focused, which involves significant cash capital investment.

**F) Developers:** Large organizational players will have less impact with small brands and government frameworks. A large number of salaried class or investor does not get promoted through limited cash investments.

Small developers are very worried immediately because most of them depend on cash transactions. It is possible for us to clean non-serious players on this parallel economy due to "surgical strike". RERA will affect the industry, which will be good for its long term health. Hotels and hospitality-related real estate in the organized sector will see nude results by the demonetization.

#### IV. Demonetization impact on organized Sector

Organized sector is already familiar with banking formalities. But most unorganized sectors, farmers and laborers will suffer as they get the most of the time money so they get and save currency notes. Electronic transactions are limited to less than 20% of transactions per day. In small and medium terms, many departments of the hospitality industry of India will have different effects of demonetization drive, but there will be a positive impact on the development of the Hospitality sector in long run. Generally, a strong season for the hospitality sector of the country runs from October to March, which in large measure it ensures success for the industry in any given year. Lack of available currency will allow some hospitality customers to either postpone / cancel their journey. Demonetization drive will be the biggest beneficiary of the organized hospitality sector of India. Consolidation with the general awareness of this field, being convenient in alternative mode, will lead to a positive impact on the light market in the organized sector. However, the large numbers of hotel rooms in the country are in the unorganized sector, we expect the general performance of the industry to witness some tension in the short term. Hospitality and tourism market are famous because of the ability to create large scale direct and indirect employment in the country. Since there is a lack of available inventions, due to the inability of the customers / tourists to spend a rough deal, the unorganized industries will have the greatest difficulty in creating new jobs. The consequences of mobilization will also be experienced by the suppliers of consumables, which mostly work on the cash transactions of their wholesale counterparts. The number of unorganized goods in the industry will be most affected by this decision. In addition, the laser area hotels and restaurants segments will have more impact due to prudent expenditure in this area and more cash transactions will be compared to the mainstream hotels. In restaurants and standalone restaurants, at least cash and cash consumption on restaurants will show short-term recession for growth. An increased growth in organized banking business will be seen as the customer travels from the almost cash-only unorganized sector of standalone party venues and farm houses to hotels for want of non-cash means of payment. Weddings business will return to the Indian Hotel through the Indian foreign counterparts, because the unchanged transfers of unauthorized channels have been simplified, as many hotel schools in India are being canceled in the hotel destinations from foreign migrants. Tourism and hospitality areas are internally built with economic conditions of any country. The growth of the country's macro economy due to mobility towards mobilization will be effectively driven to the industry. Banks are flush with liquidity, we expect a major downturn in interest costs, which augurs good for the growth of the industry. Forcibly, in the practice of real estate, soft drinks and clean real estate enters more liquidity in the field of knowledge, along with gradual movements towards the transaction, we look forward to investing in the field to increase from organized players, in which previously underestimated wrong complications.

#### V. Demonetization impact on unorganized Sector

On the November issue of high value currency in the unorganized sector, India will be the worst hit, while the organized sector industries will be short of the necessary liquidity to run the business, the market analyst said on Monday. In a report, Centrum Wealth Research said: "The unorganized sector is expected to be the biggest hit of the relativity. The process of daily inflation required for business will affect many industries in organized space," a report said.

**A. Situation:** India was heavily dependent on money for dealing with financial transactions. Electronic or transactional transactions are limited to less than 20% of transactions per day. People used to save money in currency to handle daily transactions. 90% of the stores did not accept money in the electronic market. They insisted on cash in the currency, generally India was a stable economy and people began to believe in currency and they stressed on the economy and kept it in saving mode. India remained stable only for a long time because people kept flexible for businesses.

**B. Issues:** Fake currency; some sources have made fake textures in India or outside (debatable). But it is true that Indian intelligence has failed to investigate the flow of fake currency in the Indian economy and after 2000 it failed to largely fail the government. We are not sure intelligence is capable of identifying the source of fake notes, but we know that our intelligence has become corrupt and benefited from unlawful acts.

#### C. Currency restrictions

1) The government wants to stop further infiltration of counterfeit currency notes in the Indian economy. We know that the government has received information from sources that large scale fake currency is being invested in Indian markets. This is great reason why governments decide to ban currencies. 2) Then what are the chances of breaking the black money through ban on currency? The result is very negligible because all transactions are not white money anyway.

#### D. restriction can stop black money

1) Those who have huge currency, have the link to convert them through banks. There are corrupt links everywhere with government employees and banks. 2) There is no effect on those who have black money out of India. There are people who have invented the money as a loan for a specific period and can get back the interest. The hard days the farmer will face as he has taken money (loan) from them. 3) There were events of thousands notes dumping or burning but this was very negligible. But do not think that everyone has black money, it is foolishness.

#### VI. the consequences of this tour will be entirely in areas with different types of intensities and different time zones.

**A) Impact of Parallel Economy:** cash economics for witnesses slimming down. The currency of the prevailing money is 86% of the total current value of currency in circulation. It is expected to eradicate black money from the economy since holders will not be able to deposit it in the bank, smuggling, terrorism, espionage etc to temporarily stop the large segment of fake currency and reduce funding for anti-social elements.

**B) Impact on GDP:** Increase in currency and bank deposit will adversely affect consumption demand in a short-lived economy. GDP growth may decline due to adverse impact on real estate and informal sectors.

**C) Lower money supply has an impact of insufficiency:** old 500 and 1000 rupees notes are being removed, unless the new 500 and 2000 rupees are widely distributed in the market, short-term money supply is expected to decrease. The reductions in money supply can also be influenced by the reduction in the budget.

**D) Impact on Bond Markets:** Surge in deposits increase the demand for government bonds with the maximum demand for loans and other high-rated bonds, especially the small bond yields of the curve.

**E) Credit Impact in Sector:** The effect of these policy measurements will primarily be linked to real estate sector with sectors like cement and steel, and will reduce the short-cut to negative.

**F) Impact on Banks** As per the Government's instructions, the legal tender closure is now to be deposited or exchanged in the bank (at certain limit) due to notes of 500 and 1000 rupees. It will automatically accumulate in savings and current accounts in the savings of the commercial amounts.

**G) Impact on of Online transaction and alternative options:** With minimal cash transactions, demand patterns are increasing for E-wallets and apps, online transactions using e-banking, plastic money usage (debit and credit card) etc.

**H) Declaration of Bank Deposits:** We can expect large amounts of cash to be brought to the realm of formal banking system through deposits in current account and savings account (CASA) so banks can reduce interest rates.

**I) The quality of the assets of NBFC faces pressured:** We trust the property of the borrowers, especially the NBFCs, who have developed skills in credit assessment in the informal section and have prepared models around the short-term to remain under pressure. Under NBFC, the quality of the lending property with a large correlation on the cash balance will be in risk in the short term. Risk profile for NBFCs can change in the long term, because strong borrower profiles can shift to potential banks.

**J) Payment Bank Benefits:** The payment banks and other institutions which are part of the transaction ecosystem will be long-term beneficiaries, as more and more cash enters into the formal banking channel.

**K) Financial Products in Investment:** In the short term, investors now believe that cash is not the safest asset and the accumulation amount is less. This will return them from physical assets to financial assets where the return will be more.

#### L) Effect on consumption sectors:

1) **Contractual pricing of real estate can increase:** We expect that real estate owners cannot be affected by the end users, because most of them help in getting funds from bank loans. During the medium term, prices of this sector can be recovered on many fronts as developers rebalance their cost (charging more on check payments).

- 2) **Sale of Used Car Dust:** Original Equipment Manufacturers will be affected by the sale of second-hand vehicles, so that new car sales will be spoiled as buyers will not be able to easily dispose of their old vehicles.
- 3) **Consumption:** To discontinue selling discounts on discretionary spending: Sales of white goods such as TVs, refrigerators, and washing machines can be reduced by up to 70 percent, because the good part of the market is in cash. The dust may continue for the next six months until it stabilizes and may lead to sufficient circulation of new currencies. Due to decreasing demand, prices are expected to be lower, using cards and checks may result in some purchase.
- 4) **Reduce demand for Gems and Jewelry:** We can expect to decrease the demand of jewelry and jewelry in the next two to three quarters. Due to the high working capital cycle and scope of higher workload, it will weaken the credit profile of the industry.
- 5) **Reduced retail demand for high solutions:** Reducing discretionary demand in these segments reduces the result of high end productive retail and luxurious items. In the case of quick service restaurants, although 60% - 70% of the transactions are currently in cash, the possibility of a lower ticket price for purchases and the high likelihood of a well-advised shelter for plastics money could have the effect of normal.
- 6) **Private Educational Institutions:** Since private educational institutions take large amounts in cash, which is 40% to 50%, we expect that this decision will have an impact on the achievement of private education institutions.
- 7) **Medical Institution (both Hospitals and Medical Colleges):** Once, if donations are made in the bonds which are more than 100% of medical institutions like hospitals and colleges, then we can expect that this move not only effects admissions but also receipts
- 8) **Political parties:** Elections and political parties are the major source of black money transactions. Most of the national political parties have 40% to 50% cash in funding and when it comes to regional parties, they go from 50% to 60%. 90% of these funds are never disclosed. The candidates and their doers felt that the political parties would have cash interest.
- 9) **Dabba trading:** It can destroy the Dabba trading. Market outbreaks, speculative markets and illegal betting markets can lead to natural death because the currency gets a new face. Demonetization was a shock for the traders who had been in the equity market for many years.

## VII. Demonetization and GDP growth

Some rating agencies are expected to decline 40 basis points for 2016-17 for GDP growth and a slight increase in 2017-18. Photo: PTI Cash is the preferred method of trading globally, 85% of which is their average. In some developed countries, less than 50% of total transactions are in cash, whereas in India they are 95%. Easy access, acceptance and certainty of performance, because the settlement is not dependent on any additional infrastructure, and does not make any additional charge compose it universally the most preferred mode. The only problem with cash is that it is a hassle and trouble for establishing a mark-down and having an ideal mode for a non-negotiable transaction. 1975-2000, the GDP ratio, which was 8.4%, was first time 10% in 2002-03 and since then it has remained above this level. This ratio is 10.8% average in the last decade. but in the last three years the negative trend has been adversely affected. The ratio of these would have been sustained compared to the year before the declaration of higher denomination notes declared void on November 8. The existence of large-scale informal sector is one of the most important factors in this core of the cash-based economy. In the informal sector economy (average 2011-15) the average gross value (GVA) ratio of growth (GVA) was 45 percent. The growth of the informal sector is largely cash oriented and so far its production depends on the promotion of cash transactions. Even after considering the negative and negative growth of savings and capital formation, this sector contributed about two-thirds of the investment for 40% capital formation and investment.

85% currency is prevalent due to demonetization of high-volume notes (Rs 1,000 and Rs 500). This has resulted in short term interruptions in transactions in agriculture and related sectors, small establishments, families and professionals. Since the injection of liquids is slower, the disadvantage of the irregular area of income in both formal and informal sectors has been affected. As self-employed and informal workers dominate the overall economy, their income can be a setback. Some may see these costs and changes in income, but one part of it can actually be revenue and income permanently

*Demonetization fallout:* ADB predict reduction in India's GDP growth rate to 7%. Some rating agencies have projected a decline of 40 basis points for GDP growth for 2016-17 and a low proportion for 2017-18. These estimates are based on the sharp changes between early currency liquidity injection and cashless transactions. However, due to religious beliefs there is a section of population that still wants to deal with cash. Approximately 40 basis points fall in GDP, about 80% of the workers cannot be considered for a natural form of employ-

ment, at least the time limit may be considered. From our point of view, the GDP growth rate may be higher than expected and recovery may increase in three to four quarters for a normal growth journey. It is really difficult to predict potential growth trajectories. But it is believed that the formal sector has registered the average increase in the last 10 quarters and in the informal sector, third quarter of 2016-17 Q3 Growth may fall down to 4.1% in best conditions. If the contraction increases to industrial and commercial services sectors and is a bit more in construction and trade, the increase in Q3 will be reduced by 1.5%. In the fourth quarter (Q4) of 2016-17 and the first quarter of 2017-18 (Q1), the growth is expected to be gradually excavated before returning to its normal journey. It is true that increasing the liquidity in the formal banking sector will increase the GDP growth rate of this sector, but GDP gets around 6% and this segment has increased by 0.5% and 1.0%. Growth in the third and fourth quarters, respectively, is not likely to be significant as the overall GDP growth numbers. Due to this additional liquidity, the effect of easy availability of credit to the formal sector can take some time, and this is not important in the third and fourth quarter. Moreover, demand reduction can also be put on demand for investing funds at a moderate level. It is important that the number of quarterly GDP of the Ministry of Statistics and Program Implementation will include the difficulties in this informal sector because the GVA quarterly estimates have been compiled by the benchmark-indicator method. The annual budget estimates for the previous year are estimated, such as estimation of crop and livestock, industrial production index, steel and cement discharge, sales tax refunds, sale of commercial vehicles, deposits and credit enhancements, banks, service tax, government expenditure, are all for formal sectors. Some of the relevance of this assumption has been found in the current situation and we may be surprised to see the good official rate of GDP growth for the third and fourth quarter.

## VIII. Conclusion

Commercial homes are also an integral part of the country's economy. In the absence of such a trade ban certain medium and large-scale business remains unaffected but severely affects several small-sized business organizations activities. The country's economy may be a recession in the next few months, but soon the Government's influence is expected to return to your normal size. The central government's recent decision to eradicate black money in India is a big step in showing high value currency. Demonetization drive to some extent will affect the general public, but it is inevitable in such decisions in the interest of the country. Also, it cannot completely prevent black money, but definitely there is a big impact on breaking large amounts of black money.

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